

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 194 – HB 188

February 24, 2013

**SUMMARY OF ORIGINAL BILL:** Grants the Tennessee Student Assistance Corporation (TSAC) the authority to establish endowments funded through gifts, contributions, or donations that are received pursuant to Tenn. Code Ann. § 49-4-203. Requires such funds to be invested by the State Treasurer. Requires TSAC to establish and administer a needs-based grant program funded through an endowment. Requires the grant program to be for Tennessee citizens who are seeking an associate's degree or certificate from a two-year public education institution. Requires principal funding for the proposed program to be deposited into an endowment fund for the purpose of generating interest, which shall be used exclusively for providing the needs-based educational grants to qualified applicants. TSAC shall develop a selection and criteria method for grant receipt and is authorized to work with outside organizations to develop an effective grant delivery method.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – A one-time transfer of \$35,000,000 from the Federal Family Loan Education Program Operating Fund to the newly-created endowment fund. In addition, there will be a recurring shift-of-use for interest earnings estimated to exceed \$875,000 per year, from the current use of paying operating expenses for the Federal Family Loan Education Program, to the proposed use of providing needs-based educational grants.

**SUMMARY OF AMENDMENT (003603):** Revises the investment authority given to the State Treasurer, so that the Treasurer has an expanded pool of investment funds in which to place endowment funding.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- According to TSAC, the Federal Family Loan Education Program Operating Fund (the Operating Fund) is currently used to pay for operating expenditures of the Federal Family Loan Education Program.
- Based on information provided by TSAC, approximately \$35,000,000 will be transferred from the Operating Fund to the new endowment fund.
- According to TSAC, this one-time transfer of funds is currently authorized by the federal government pursuant to U.S.C. § 20-1072b(d)(1).
- TSAC will provide needs-based educational grants from the recurring interest stream generated on funds deposited into the endowment fund.
- Under current law, interest generated on assets within the Operating Fund remain in the Operating Fund for the purposes stated above. Under this bill, TSAC will utilize the interest generated on the assets within the endowment fund for the purpose of providing needs-based educational grants. As a result there will be a shift-of-use for the interest earnings on the principal amount of \$35,000,000.
- Interest earned on assets in the endowment fund will be equal to interest earnings on assets in the Operating Fund.
- The annual rate of interest on the Operating Fund (under current law), and the annual rate of interest on the endowment fund (under this bill), are reasonably estimated to be at least 2.5% per year.
- A recurring shift-of-use for interest earnings estimated to exceed \$875,000 (\$35,000,000 x 2.5%) per year from the Operating Fund to the endowment fund.
- No fiscal impact on the Lottery for Education Account.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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